

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CEA-01 CIAE-00  
COME-00 EA-07 FRB-03 INR-07 IO-13 NEA-10 NSAE-00  
OPIC-03 SP-02 TRSE-00 LAB-04 EPG-02 SIL-01  
AGRE-00 OMB-01 SSO-00 INRE-00 USIE-00 STR-04 L-03  
/086 W

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O 111922Z MAY 77

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FOR EB/ICD; PASS TREASURY FOR GALE

E.O.11652: N/A

TAGS: CIEC, ETRD, EFIN

SUBJECT: CIEC: RAW MATERIALS COMMISSION

FOLLOWING ARE TEXTS OF G-8 PROPOSALS ON PURCHASING  
POWER AND COMPENSATORY FINANCING TABLED MAY 11 IN  
CONTACT GROUP 3 OF CIEC RAW MATERIALS COMMISSION.  
BEGIN TEXT ON COMPENSATORY FINANCING:

1. THE PARTICIPANTS RECOGNIZED THE IMPORTANCE OF  
EFFECTIVE INTERNATIONAL ACTION TO OFFSET THE ADVERSE  
EFFECTS ON DEVELOPING COUNTRIES OF EXCESSIVE FLUCTUA-  
TIONS IN EXPORT EARNINGS, INCLUDING IN PARTICULAR  
EARNINGS FROM EXPORTS OF PRIMART COMMODITIES.
  2. IN THIS CONTEXT, THEY WELCOMED THE GREATLY  
EXPANDED USE OF THE IMF COMPENSATORY FINANCING FACILITY  
FOLLOWING THE LIBERALIZATION IN DECEMBER 1975 AND THE  
SUBSTANTIAL INCREASE IN MEMBERS' DRAWING RIGHTS,  
INCLUDING THOSE OF DEVELOPING COUNTRIES, STEMMING FROM  
THE SIXTH REVIEW OF QUOTAS LIKELY TO TAKE EFFECT LATER  
THIS YEAR. THEY ALSO NOTED THAT ANOTHER INCREASE IN
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DRAWING RIGHTS ON THE COMPENSATORY FINANCING FACILITY  
WOULD RESULT FROM THE FURTHER INCREASE IN QUOTAS  
CURRENTLY UNDER DISCUSSION IN THE IMF FOLLOWING THE  
INTERIM COMMITTEE MEETING OF APRIL 1977.

3. THEY AGREED THAT AN INTERNATIONAL STUDY WAS  
REQUIRED IN THE AREA OF EXPORT EARNINGS  
STABILIZATION TO ASSESS THE PRECISE PROBLEMS OF

DEVELOPING COUNTRIES AND THE MOST APPROPRIATE FORM OF INTERNATIONAL RESPONSE TO THESE. THEY CONSIDERED THAT THE NECESSARY WORK SHOULD BE SET IN HAND AS A MATTER OF URGENCY WITHIN THE IMF/IBRD DEVELOPMENT COMMITTEE AND THAT ACCOUNT SHOULD BE TAKEN OF ALL RELEVANT ECONOMIC AND INSTITUTIONAL ASPECTS. END TEXT.

BEGIN TEXT ON PURCHASING POWER OF DEVELOPING COUNTRIES:

THE PARTICIPANTS IN CIEC RECOGNIZE THAT A PRINCIPAL OBJECTIVE OF INTERNATIONAL ACTION IN WORLD COMMODITY TRADE IS TO ENCOURAGE THE STABILITY, GROWTH, AND EFFICIENCY OF MARKETS FOR COMMODITIES, ESPECIALLY THOSE OF EXPORT INTEREST TO DEVELOPING COUNTRIES. THEY FURTHER RECOGNIZE THAT ACHIEVEMENT OF T//LS OBJECTIVE WILL HELP TO MAINTAIN AND INCREASE DEVELOPING COUNTRIES' EARNINGS FROM COMMODITY EXPORTS, THEREBY STRENGTHENING THEIR PURCHASING POWER AND COUNTERACTING THE ADVERSE EFFECTS OF INFLATION.

THE PARTICIPANTS AGREE THAT THE STRENGTHENING OF EACH INDIVIDUAL COUNTRY'S PURCHASING POWER WILL DEPEND ON THE ECONOMIC CHARACTERISTICS AND POTENTIAL OF THE PARTICULAR COUNTRY. SPECIFIC MEASURES WHICH COULD BE TAKEN TO STRENGTHEN THE EXPORT EARNINGS OF COMMODITY EXPORTING DEVELOPING COUNTRIES INCLUDE:

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INFO OCT-01 EUR-12 ISO-00 AID-05 CEA-01 CIAE-00  
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- DIVERSIFICATION OF THE EXPORT BASE INCLUDING INCREASED LOCAL PROCESSING;
  - STIMULATION OF TRADE IN COMMODITIES THROUGH REDUCING BARRIERS TO TRADE AND PROMOTING CONSUMPTION OF THESE COMMODITIES IN DEVELOPED COUNTRY MARKETS, AND THROUGH IMPROVING THE RELIABILITY OF SUPPLY WHICH WOULD IMPROVE THE ATTRACTIVENESS OF THE COMMODITY IN QUESTION;
  - REDUCING COSTS OF PRODUCTION THROUGH TECHNOLOGICAL DEVELOPMENT WHICH WOULD IMPROVE THE COMPETITIVENESS OF THE COMMODITY IN QUESTION;
- AND
- STABILIZING COMMODITY PRICES AT LEVELS WHICH WILL ACHIEVE A LONG-TERM MARKET EQUILIBRIUM BETWEEN SUPPLY AND DEMAND AND ASSURE ADEQUATE SUPPLIES AT PRICES THAT ARE FAIR TO CONSUMERS AND REMUNERATIVE TO PRODUCERS.

PRICE STABILIZATION AROUND THE LONG-TERM MARKET TREND COULD BE SOUGHT IN THE CONTEXT OF INDIVIDUAL COMMODITY AGREEMENTS WHERE THE PRODUCERS AND CONSUMERS LIMITED OFFICIAL USE

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CONCUR THAT SUCH AGREEMENTS ARE APPROPRIATE AND DESIRABLE. IN THIS REGARD, THE PARTICIPANTS AGREE THAT WHERE COMMODITY AGREEMENTS HAVE PRICING PROVISIONS THESE PROVISIONS COULD BE PERIODICALLY REVIEWED AND APPROPRIATELY REVISED TAKING INTO ACCOUNT, INTER ALIA, LEVELS OF PRODUCTION AND CONSUMPTION, EXCHANGE RATES, WORLD STOCKS, AND PRODUCTION COSTS INCLUDING MOVEMENTS IN THE PRICES OF IMPORTED MANUFACTURED INPUTS.

END TEXT.

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Disposition Date:** 22 May 2009  
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**TAGS:** ETRD, EFIN, XX, CIEC  
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**Review Markings:**  
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